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The UNICEF recovery policy: an update

Summary

In its decision 2003/9 (E/ICEF/2003/9/Rev.1), adopted at the annual session of 2003, the Executive Board approved the UNICEF recovery policy and decided to apply, as an interim measure, the methodology described in paragraph 13 of document E/ICEF/2003/AB/L.1 and in its annex II. The methodology would be reviewed by the Executive Board in light of the harmonization discussion among the United Nations agencies. The present report provides a brief update on the status of that discussion under the auspices of the High-Level Committee on Management of the Chief Executives Board.

Also in decision 2003/9, the Executive Board, inter alia, established a recovery rate for non-thematic contributions of 12 per cent and additional reductions of 1 per cent for 90-per-cent upfront payment, 1 per cent for contributions over $500,000, 2 per cent for contributions over $2 million, 3 per cent for contributions over $10 million, and, as a transitional arrangement for 2004, 4 per cent for contributions over $40 million. The Executive Director *recommends* that the 4-per-cent reduction for contributions over $40 million be continued beyond 2004, so that a comprehensive proposal can be prepared for review by the Board at the second regular session of 2005, taking into account the results of the discussions on harmonization and a review of the UNICEF experience in implementing decision 2003/9.

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Introduction

1. In decision 2003/9 (E/ICEF/2003/9/Rev.1) [see annex for full text], adopted at the annual session of 2003, the Executive Board approved the UNICEF recovery policy and decided to apply, as an interim measure, the methodology described in paragraph 13 of document E/ICEF/2003/AB/L.1 and in its annex II. The methodology would be reviewed by the Executive Board in light of the harmonization discussion among the United Nations agencies. The present report provides a brief update on the status of that discussion under the auspices of the High-Level Committee on Management (HLCM) of the Chief Executives Board.

2. Decision 2003/9 also established a recovery rate for non-thematic contributions of 12 per cent and additional reductions of 1 per cent for 90-per-cent upfront payment, 1 per cent for contributions over $500,000, 2 per cent for contributions over $2 million, 3 per cent for contributions over $10 million, and, as a transitional arrangement for 2004, 4 per cent for contributions over $40 million. The Executive Director recommends that this arrangement be continued beyond 2004 so that a comprehensive proposal can be prepared, taking into account the results of the harmonization discussions and a review of the UNICEF experience to be submitted to the Executive Board at the second regular session of 2005.

Status update on harmonization among United Nations organizations

3. In the framework of the Finance and Budget Network of the HLCM, a working group on support costs related to extra budgetary activities, chaired by the United Nations Educational, Scientific and Cultural Organization, has been reviewing issues pertaining to support cost recovery so as to agree on a common approach. At the first meeting of the working group in December 2003, hosted by UNICEF in New York, the UNICEF secretariat presented its recovery policy, including the principles and methodology used and the rates approved by the Executive Board. At the next meeting, held in Rome in March 2004, the working group reviewed the approaches, methodology and rates of the Food and Agriculture Organization of the United Nations, the United Nations Development Programme, the United Nations Relief and Works Agency for Palestine Refugees in the Near East, the World Food Programme and the World Meteorological Organization.

4. In reviewing the methodologies used, the working group has taken into consideration the recommendations of the Joint Inspection Unit on the support costs related to extrabudgetary activities in organizations of the United Nations system (JIU/REP/2002/3), particularly those calling for greater harmonization among organizations.

5. Despite the differences in mandates, operational modalities and cost structures, resulting in a diversity of approaches, methods and definitions, the HLCM working group recognizes the convergence in terms of diagnostic and principles. The group is moving towards a harmonized definition and categorization (fixed cost — direct and indirect; and variable cost — direct and indirect) of support costs even though each organization would have to determine which cost item would fall into which category, depending on its nature and purpose. Most organizations would only recover the variable indirect cost. In terms of a methodology for cost measurement,

the group has identified two approaches: a macro approach, which weights the total support cost through a global analysis; and a micro approach, which follows an in-depth cost measurement based on time surveys.

6. It is recognized that the harmonization of principles, definitions, categorization and approaches would not lead to the same cost recovery rates for all organizations, but will provide transparency in terms of the rates, based upon a common approach agreed upon by the United Nations agencies. The working group will continue its work in the autumn of 2004 to build a consensus on these matters

Status update on UNICEF recovery policy

7. Paragraph 11 of decision 2003/9 requires that the Executive Board review the interim policy at the second regular session of 2005. In anticipation of that review, the following information is provided to establish that even in the short time since the recovery policy was approved, a positive trend is evolving that should meet the expectation of eventually eliminating the subsidy of other resources from regular resources and increasing funding for regular resources programmes.

Thematic contributions

8. The UNICEF recovery policy incorporated the provision for other resources contributions directed to the five priorities of the medium-term strategic plan and to emergencies. This category, called thematic contributions, offers donors a recovery rate reduced by 4 per cent to recognize the reduction in transaction costs attributed to the flexibility of strategic earmarking and donors' acceptance of consolidated reporting. The response to this new modality has been positive, with thematic contributions of $26 million received in 2003 and $34.8 million received as of mid-June 2004, with a total of $64.4 million received since June 2003.

Recovery rates

9. The policy anticipated a mixture of recovery rates that would result over time in a blended rate of 8 to 9 per cent.

10. At the end of 2003, the recovery rate on other resources expenditures was 5 per cent. As of May 2004, the average rate was 5.9 per cent on expenditures. However, the rate attributed to new contributions received (but not expended) in 2004 is averaging 7.51 per cent. This is a positive trend that will continue to increase as older contributions carrying the previous rate of 5 per cent are closed.

Recommendation

11. The Executive Director *recommends* that the Executive Board adopt the following draft recommendation:

The Executive Board,

Recalling Executive Board decision 2003/9 (E/ICEF/2003/9/Rev.1) on the UNICEF recovery policy,

Notes the positive trend in recovering indirect costs attributed the management of other resources contributions;

Appreciates the progress made with other United Nations organizations to harmonize the recovery methodology;

Encourages UNICEF to continue active involvement in the working group of the High-Level Committee on Management on cost recovery;

Decides that the 4-per-cent reduction in the recovery rate for contributions over $40 million will be continued beyond 2004 so that a comprehensive proposal can be prepared for review by the Executive Board at the second regular session of 2005, taking into account the results of the discussions on harmonization and a review of the UNICEF experience in implementing decision 2003/9.

Annex I

2003/9. The UNICEF recovery policy

The Executive Board,

Having reviewed the UNICEF recovery policy, as contained in document E/ICEF/2003/AB/L.1, and the document E/ICEF/2003/AB/L.5 submitted at the present session,

1. *Stresses* that regular resources, inter alia, because of their untied nature, are the bedrock of the operational activities of UNICEF and, in this regard, *notes* with serious concern the stagnation of regular resources available to UNICEF;

2. *Requests* that all donors strive to increase contributions to regular resources and *requests* the Executive Director to hold consultations to encourage donors to increase the proportion of contributions to regular resources;

3. *Endorses* the objectives that other resources support the medium-term strategic plan (MTSP) priorities and that regular resources should not subsidize the support costs for other resources programmes, and *encourages* UNICEF to apply procedures that reduce transaction costs for other resources programmes;

4. *Endorses* the aim of eliminating, in the medium term, the subsidy of support costs for other resources programmes by regular resources;

5. *Calls* on those donors contributing to other resources to consider directing these contributions to thematic areas;[1]

6. *Calls* further on all donors to simplify their administrative and reporting requirements to significantly reduce the administrative costs of their contributions to other resources;

7. *Decides* to apply, as an interim measure, the methodology as described in paragraph 13 of document E/ICEF/2003/AB/L.1 and in its annex II. The methodology will be reviewed by the Executive Board in light of the harmonization discussion among the United Nations agencies;

8. *Authorizes* the Executive Director to apply the following rates[2] to all new agreements to be signed after Executive Board approval of the revised policy on an interim basis:

(a) 5 per cent for all resources raised from the private sector in the programme countries;

(b) For other private sector resources, 5 per cent for thematic contributions and 7 per cent for non-thematic contributions;

(c) For other contributions to thematic areas, 8 per cent, and an additional reduction of 1 per cent for 90 per cent upfront payments;

(d) For non-thematic contributions, 12 per cent and additional reductions of 1 per cent for 90 per cent upfront payment, 1 per cent for contributions over $500,000, 2 per cent for contributions over $2 million, 3 per cent for contributions over $10 million, and, as a transitional arrangement through 2004, 4 per cent for contributions over $40 million;

9. *Recognizes* that the rates approved above constitute a step towards the reduction of the subsidy of the support costs of other resources programmes by regular resources;

10. *Requests* the Executive Director to bring the issue of the recovery policy to the attention of the working group on harmonization and simplification of the United Nations Development Group (UNDG) with a view to harmonizing the methodology used by the UNDG members in devising their recovery policies;

11. *Requests* the Executive Director to report to the Executive Board on the experiences of the recovery policy, especially on actual cost recovery achieved and recovery rates applied to projects during this period, on its effects on the regular resources, as well as on the harmonization efforts undertaken, and to submit proposals for further steps towards the elimination of any remaining subsidy of support costs of other resources programmes by regular resources at the second regular session of the Executive Board in 2005 for a review of this interim policy.

Annual session
5 June 2003

Notes

[1] The thematic areas are the five MTSP priority areas (immunization plus, girls' education, child protection, HIV/AIDS, early childhood development) and humanitarian assistance.

[2] All incentive reductions are applicable to annual contributions.